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TAGS: [EFIN](#) [ECON](#) [SOCI](#) [PREL](#) [SA](#)
SUBJECT: SAUDI CENTRAL BANK GOVERNOR MUSES ON FINANCIAL
HISTORY AND GENERATIONAL CHANGES IN THE KINGDOM

Classified By: Ambassador James B. Smith, reasons 1.4 (b and d).

11. (C) Summary: Muhammed Al-Jasser, Saudi Arabia's Central Bank Governor, recently reviewed for the Ambassador the Kingdom's last fifty years of Saudi financial history, which he stressed plays an important role in shaping Saudi economic policy on issues like the dollar peg. Overspending Saudi Arabia's initial oil boom in the 1950's halved the value of the Riyal, a lesson that the Kingdom "has never forgotten." Saudi Arabia also learned the importance of maintaining a financial reserve through the oil price collapses of the 1970's and mid-1980's. Saudi Arabia has learned the hard way that it needs to use any additional revenue from oil price rises to bolster its cushion and pay down debt, while investing in long-term development projects at home. Al-Jasser said these lessons have helped the Kingdom weather last year's financial crisis. He also said his generation feels very lucky it had the chance to study abroad and participate in so much of the Kingdom's development, which has taken it from being "just like Yemen" to a prosperous country in only 35 years. This account offers some interesting insights into the world view of senior Saudi economic policy makers. End Summary.

12. (C) Saudi Central Bank (SAMA) Governor Muhammed Suleiman Al-Jasser briefed the Ambassador on Saudi Arabia's financial history over the last fifty years, which he said has a powerful influence on how the Kingdom reacted to last year's financial crisis. He noted that many people in the world think that Saudi Arabia is just like Switzerland. While this is a tremendous compliment on one hand, it does not accurately reflect the reality that in the 1970's, Saudi Arabia was "much like Yemen." As an illustration of the enormous transformation the Kingdom has undergone over the last 35 years, he cited his own vivid memories of growing up without electricity, running water and indoor plumbing, while contrasting this to the view of skyscrapers from his office window.

History of SAMA:
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13. (C) Al-Jasser said that the Kingdom has learned, after several painful experiences, the importance of maintaining fiscal discipline. SAMA was founded in 1952 to bring some regularity to the Kingdom's finances. Al-Jasser said its first five years were traumatic, as "imprudent fiscal policy was followed by imprudent monetary policy." While King Abdulaziz "only spent what he had, King Saud spent more than the income he received." The Central Bank ended up lending increasing sums to the government to sustain high levels of government spending. The result was that the Saudi Riyal collapsed from 3.5 riyals per dollar to 7.5, despite being on the gold standard. This policy began to change with the accession of King Faisal, who brought in IMF experts who

advised SAMA not to lend to the government. Thanks in part to the team's advice, in 1958 a law was passed that made SAMA independent, and made the SAMA Governor the chairman of its board, vice the Minister of Finance. (The board includes the SAMA governor, the SAMA Vice Governor, the Minister of Finance and three businessmen).

14. (C) Al-Jasser stressed that SAMA has never forgotten the "horrors" of what happened in the 1950's to the Saudi Riyal. Al-Jasser stressed that the Kingdom's culture of financial conservatism is a result of the turmoil of the 1950's, and continues to have an effect in making senior government leaders very sensitive to any financial turmoil and its effects on society.

Importance of Financial Reserves:

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15. (C) The 1973 oil boom increased spending, but Al-Jasser stressed that SAMA also increased its reserve cushion, as the Kingdom's leaders did not know how long the boom was going to last, and did not want to get caught unable to complete development projects they had started. In an effort to make the spending more sustainable, the Kingdom set up a number of institutions, such as the various credit and development funds, that continue today. As oil prices declined in the late 1970's, Saudi Arabia dipped into its reserves, reinforcing the lesson of the value of maintaining a cushion.

This financial cushion helped smooth out the drop in government spending in the "devastating" oil price collapse of 1985-7.

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16. (C) Al-Jasser noted that in only one year (2000) between 1983-2000, the Saudi Government avoided having a budget deficit. The deficits peaked in 1987 at 25% of GDP, and much of these deficits was financed by international lending. Beginning in 2003, as the oil price again rose, the Saudi Government focused on paying down its debt and rebuilding its reserves. Thus, the Kingdom was in good shape to cope with the financial downturn in 2007-8. Al-Jasser said that Saudi Arabia has been practicing the "counter-cyclical" that many countries are now trying to pursue for years. The problem is that it is not possible to apply in a downturn, only in an economic upturn.

... and of Coordination with Ministry of Finance:

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17. (C) According to Al-Jasser, one of the other lessons Saudi Arabia has learned over the years is the importance of close cooperation between SAMA and the Ministry of Finance. In Saudi Arabia, fiscal policy is clearly the main driver of the economy. The revenue the Kingdom earns from oil is the primary determinant of money supply in the economy, as mediated by Finance decisions on how much to spend. Monetary policy is also somewhat "neutralized" by the hard peg to the dollar.

18. (C) The importance of these lessons was shown last year, as the entire globe was "close to the abyss." Al-Jasser noted that there are a number of other countries that had similar development profiles to Saudi Arabia in the 1960's and 1970's, like Zimbabwe. He pointed to a Zimbabwean 150 billion dollar banknote, which was worth approximately \$1.50, as an illustration of what can go wrong in a country. He noted that even some oil exporters have mismanaged their development, such as Nigeria, Venezuela, and Libya.

Oil Boom Generation:

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19. (C) Al-Jasser commented extensively on the importance of generational changes in Saudi Arabia. He said he was very lucky to be part of the Oil Boom Generation, which he said

benefited from the increase in prices in 1973, which led the "floodgates to open" in 1974 in terms of new opportunities for Saudis to study and work abroad. This converted what had been "a trickle" of students in the 1950's to tens of thousands of Saudis, many of whom studied and lived for years in the United States. Al-Jasser noted that the Oil Boom Generation is still the biggest generation of Saudis who have this international exposure. Al-Jasser said that his generation tends to be proud of their achievements and that of their country, but the overwhelming feeling is that of having been blessed to have a chance to participate in such a momentous time. He is still a big believer in the U.S. education system, which he said is "the only one" in the world that allows students to stumble or fail and still support their development. He is delighted that King Abdullah has resumed the flow of Saudis going abroad.

No Brain Drain:

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¶10. (C) Contrary to many other developing countries, Saudi Arabia has not suffered from a brain drain from those students who have gone abroad. Al-Jasser attributes this to more than just strong family bonds, which are present in many other developing countries. The main reason, he thought, is the absence of an economic drive away from Saudi Arabia that tends to overcome the strong attraction of family ties in other countries. For his own generation, Al-Jasser noted that any educated Saudi who wanted to return found a job easily; indeed, they were in huge demand as the economy grew rapidly. He also thought the government's behavior helps, including the ability of commoners to approach senior members of the ruling family and the feeling that all elements of society, whether liberal or conservative, have access to make their views heard. The net result is that Saudis feel a pride in their history and regard the government as legitimate. Al-Jasser summed it up by arguing that Saudis come back to the Kingdom because there is hope of upward mobility.

Islamic Banking:

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¶11. (C) When asked what was important to know about Islamic Banking, Al-Jasser quipped "not much." He dismissed it as an

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effort to satisfy the emotional desire to feel closer to God by suggesting that "God likes some transactions" and is less supportive of others.

Comment:

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¶12. (C) Al-Jasser's comments are valuable for the insight they provide into the thinking of senior Saudi economic policy makers. At several points in the last thirty years, the Kingdom's financial management looked anything but stable or on track. The comments about the importance of avoiding a collapse in the value of the Riyal and of building up financial reserves against the return of the day when oil prices might not be so high are very instructive and add perspective on issues like Saudi attitudes towards the dollar peg. His comments about his generation are also interesting, particularly for the sense that his generation was very lucky, rather than entitled to its opportunities, and the implication that successive generations of Saudis have suffered by having less access to the rest of the world.

Bio Note:

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¶13. (C) Born in 1953, the voluble and personable Al-Jasser is proud of his long association with the United States, which he said has often led to accusations that he is "just like an American" within the Saudi system. He persuaded his father

in 1974 that he wanted to study medicine in Egypt. His father, an auto dealer in Riyadh, had hoped he would follow something more practical, but supported his plans as long as he got on with it. Al-Jasser persuaded the Ministry of Defense to give him a scholarship for an Egyptian university.

After one term, he decided to pursue a different degree track in Germany ("I would have studied anything to get out of Egypt"), which led him later to pursue training in the U.S. He began his American academic peregrinations in Chicago, and then proceeded through several schools, ending up in California, graduating with his PHD from University of California at Riverside, which had the best development program when he was in school. He had taken a two year break in 1981-3 to work in Riyadh for the Ministry of Finance, which helped him focus on his PHD research areas, and allowed him to gain his final degree in only 2 and a half years. After finishing his PHD, he returned to Saudi for a couple of years, and went to Washington in 1989-1995 as the Saudi representative to the IMF, where he ended up working closely with and living in the same neighborhood as Ibrahim Al-Assaf, the Finance Minister. He has two daughters, the oldest of whom is 26, and a son, who is 22 and studying at Marymount University in the Washington area.

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